



Office of Audit Services
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November 13, 2007

AGENDA ITEM 4

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Draft Audited Financial Statements
- II. PROGRAM:** Audit Services
- III. RECOMMENDATION:** The Finance Committee recommendation to the Board of Administration for acceptance of the draft basic financial statements, as audited by Macias, Gini & O'Connell LLP for the year ending June 30, 2007 and approve the letter of transmittal.
- IV. ANALYSIS:**

Pursuant to Section 20228 of the Government Code the Board of Administration's independent financial statement auditor, Macias Gini & O'Connell LLP completed its audit of CalPERS' basic financial statements for the year ending June 30, 2007. A draft copy of the auditor's opinion and CalPERS' basic financial statements were previously provided to the State Controller's Office and the Bureau of State Audits. A draft copy of the Basic Financial Statements is attached to this agenda item, as Attachment A, for the Committee's review.

During the audit, management makes both written and oral representations to the independent financial statement auditor in response to specific inquiries or through the financial statements. Representation letters acknowledge management's responsibility for the basic financial statements, confirm representations given to the auditor, and reduce the possibility of any misunderstanding between management and the auditor. In connection with the audit and consistent with auditing standards, the independent financial statement auditor received a Management Representation Letter and a Legal Representation Letter from CalPERS. Copies of these Representation Letters were previously provided to the Finance Committee.

Macias Gini & O'Connell LLP DRAFT Audit Opinion is dated November 15, 2007, the date of the Board of Administration meeting, rather than the date of when field work ended in October, consistent with a change in auditing standards. The auditors will be evaluating subsequent events that occur after June 30, 2007 which may impact the financial statements through the date of the DRAFT Audit Opinion.

The Office of Audit Services manages the independent auditor contract and facilitates the audit process. In preparing the audit report on these financial statements, Macias Gini & O'Connell LLP fulfills its responsibility by auditing the Basic Financial Statements and expressing an opinion. The results of the audit are communicated to the Finance Committee.

The audit report is considered a draft until Macias Gini & O'Connell LLP performs a final review and signs the opinion. The signed report and financial statements will be distributed to the Board of Administration and transmitted to the Governor, the Secretary of the Senate, the Legislature, the State Controller's Office, the Bureau of State Audits and other interested parties.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan, but it is part of the ongoing work of the Office of Audit Services.

VI. RESULTS/COSTS:

Acceptance and publication of the audited financial statement fulfills the Board's responsibility for procuring an independent audit under Section 20228 of the Government Code. There are no added costs from this agenda item.

Fiscal Services will provide the Committee an overview of the Basic Financial Statements. Additionally, representatives of Macias Gini & O'Connell LLP are available to present their audit opinion and answer questions posed by Committee members.

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